

**Statement of
Chairman Tom Wheeler
Federal Communications Commission**

Hearing on the FCC's Fiscal 2015 Budget Request

**Before the
Subcommittee on Financial Services and General Government
Committee on Appropriations
U.S. Senate**

March 27, 2014

Chairman Udall, Ranking Member Johanns, and members of the Subcommittee, I am pleased to appear before you today, alongside my colleague Commissioner Pai, to present the Federal Communications Commission's Fiscal Year (FY) 2015 Budget Request.

Although I have testified before a number of other congressional committees during my career, this is my first appearance before a Senate Appropriations Subcommittee. I see this as an important opportunity to update you on the FCC's activities while providing you with information essential to developing the Commission's funding levels.

When I assumed the Chairmanship of the FCC last November, I was impressed by the Commission's moderate budget levels and the extraordinary work that this agency has accomplished during the past few decades. The Commission has raised more than \$53 billion for the Treasury in auctions revenues since 1994 – \$1.56 billion of that just last month. We are on course to raise billions more in the next few years to fund, among other things, the deployment of an interoperable broadband network for our nation's first responders, as well as to reduce the deficit. The Commission supports an industry that is essential to our nation's economy and stimulates ever-higher levels of financial growth. We have repurposed and re-engineered significant amounts of spectrum to fuel these industries – including spectrum that would have been considered almost useless barely a decade ago. During the past three years, the Commission has reformed the Universal Service Fund (USF) – a massive undertaking designed to take this 20th Century program into the next decades of the 21st Century – and now we are building on that reform with a sharpened enforcement focus.

The Commission's activities are entirely funded by those it regulates. In other words, there is a zero relationship between Commission expenditures and the federal deficit. We have no direct appropriation, and we work hard to raise funds to put money back into the Treasury. In fact, the industries that we regulate contributed \$17 million to sequestration since that money was derived from their licensing fees. Auctions revenues cover auctions costs, and the USF funds cover USF program costs.

The FCC's FY 2015 Budget Request is \$375,380,313, including \$11,090,000 specifically allocated to the Office of Inspector General. Our auctions cap request is \$106,200,000. Adopting this request will allow us to follow through on important priorities identified by your committee and our authorizers: the continued reform of USF programs to combat waste, fraud, and abuse and enhanced enforcement to put teeth into those reforms; as well as internal agency reform designed to make our processes responsive to consumers and the industry in a cost-effective fashion. Importantly, the auctions

funds will support spectrum auctions identified in the 2012 Spectrum Act, which will make additional spectrum worth tens of billions of dollars available for commercial licensed services as well as providing nationwide spectrum for unlicensed use; and will support FirstNet.

Although it is important to keep costs down in the current budget environment, let me give you a snapshot of the Commission's recent budget restraints. The FCC's spending levels decreased after FY 2009 from \$341 million to \$335 million, and hovered just at that mark for two years, finally hitting \$339 million during the next three years – with \$17 million of that number going toward sequestration in FY 2013. During FY 2013, the FCC cut its programming to the bone and worked hard to find cost savings, often delaying lifecycle replacements and improvements for facilities and equipment. In FY 2011, the FCC had 1,776 employees. Today, we are down to 1,725, which is a 30-year low in FTEs. The number of FCC contracting personnel also has steadily decreased from a high of 959 in FY 2009 to a current level of 470.

These cost reductions had real consequences. We have been unable to replace our Office of Engineering's Equipment Authorization System, and at this year's Consumer Electronics Show, I heard complaints about how sequestration's impact had slowed the approval of new products before last year's holiday shopping season. Cuts in employees left us chronically understaffed in enforcement, for example, so that our work to police pirate radio activities suffered – a big concern among some broadcasters – as we focused all available resources on public safety and homeland security activities. Likewise, we never replaced or upgraded our enforcement equipment. In fact, we have more than 200 relic IT systems that are costing the agency more to service than they would to replace over the long term.

An effective and well-resourced FCC is critical, because we oversee the networks that power our information economy. The Commission's policies to unleash spectrum, promote competition, and provide regulatory certainty can help spur innovation and investment in a vital sector that drives economic growth and job creation. And the information and communications technology sector continues to be one of the leading lights of our economy and a key to our global competitiveness. For example:

- American firms account for 84 percent of global profits in the computer hardware and software industries.
- In 2010, the ICT sector accounted for 24% of real GDP growth.
- Each year, the ICT sector generates more than \$300 billion in free goods and services that are not captured by GDP statistics.
- The mobile apps economy, which didn't exist at the start of 2008, has created more than 750,000 U.S. jobs.
- Since 2009, more than \$250 billion has been invested by private companies to expand, extend and upgrade broadband networks, which exceeds investment by the major oil and gas or auto companies.
- Annual investment in U.S. wireless networks grew more than 40% between 2009 and 2012.
- Venture capital financing of "Internet-specific" businesses has doubled in the past four years, from \$3.5 billion in 2009 to \$7.1 billion in 2013.

During the next year, the FCC will be hard at work on activities that will deliver significant benefits to consumers, businesses and our economy. We will be developing and licensing spectrum resources to spur innovation in new communications devices; upgrading, enhancing and securing our internal systems to better serve consumers and the industries that rely on us; and modernizing and enforcing our USF programs. That is really what the Commission's FY 2015 budget is designed to support – another boom year of communications services for the American consumer and another year of growth for the industries that we support.

During that same year, the FCC, like the technology and telecommunications industries, needs to adapt to keep pace with the exploding marketplace. The FCC needs the basic tools to sustain and encourage industry growth; to protect licensees; and ensure the reliability and safety of the systems that we use. We need to do so in a way that fosters solid management practices that support, sustain and enhance the industries that we regulate.

One of the primary reasons that I initiated a process reform review upon assuming the FCC Chairmanship was because of my commitment to create an agency that is highly efficient, as well as responsive to the needs of all Americans. Instituting reform at this level will require the expenditure of resources that support essential programmatic changes. To support these efforts, the Commission is requesting a total of 1,790 FTEs for FY 2015, which includes an additional 10 FTEs for Information Technology (IT) programming and 45 FTEs for USF modernization and oversight. These numbers are projections over the current low number of FTEs, and they represent an increase of only 14 FTEs over FY 2011 levels.

The FCC carefully considered the need to hire additional employees prior to submitting its FY 2015 Budget Request. We have far fewer personnel in IT than comparable agencies, and, as I mentioned earlier, we have more than 200 incompatible, aging computer systems that, because they cannot talk to one another, act to increase the cost of doing business. We must overhaul, upgrade, secure and replace IT systems that are antiquated relics – costly to maintain and harmful to agency productivity. The Process Reform report that I commissioned draws a direct line between inefficient and unreliable IT systems and sluggish administrative and regulatory activities. Certainly, the FCC, of all agencies, must be able to communicate effectively inside and outside the Commission. The failure to invest in IT now will keep us from achieving many of the reform goals that Congress has set – from transparency to timeliness.

Our other major spending target is USF modernization and oversight. The need here is urgent and resource-intensive. I intend to place a heavy – but not heavy-handed – emphasis on modernization and enforcement to ensure that USF adheres to Congress' vision and provides essential access to telecommunications services to all Americans – whether they live in a remote area of Alaska, in one of our American territories, or on an Indian reservation in North Dakota. On that note, I would emphasize that closing the infrastructure gaps in Indian country is an agency-wide priority, and I am committed to greater consultation with Tribal leaders to promote broadband deployment and adoption in their communities.

We envision hiring a broad range of USF specialists with the regulatory, enforcement, economic, legal, accounting and auditing skills necessary to provide oversight of the USF programs in multiple offices and bureaus. Although our Budget Estimates for FY 2015 indicate that most hires for USF would be targeted in the Wireline Competition Bureau (WCB), our new Managing Director currently is reviewing and revising the individual bureau staffing levels in accordance with the Commission's mission objectives. While the final recommendation has not yet been made, the USF employees will likely be distributed among WCB, the Enforcement Bureau (EB), Office of Inspector General (OIG), and Office of Managing Director (OMD). Every time I read or hear a news story about someone who tries to game the USF system, I recommit myself to the goal of dedicating qualified staff to reducing fraud.

Our requested auctions spending bump will support current auctions activities as well as the complex process of developing the Incentive Auction Program. Since 1994, the auctions expenses have been approximately two percent of our total auctions revenues. The Commission operated the auctions program for 10 years under a cap without inflationary adjustments, only receiving an increase in FY 2013 to fund the start-up for the Incentive Auctions program.

The Commission welcomed the statutory authority to initiate and operate Incentive Auctions because of its benefits to consumers and stakeholders, as well as the Treasury. We are grateful that you recognized the need to ensure that this program is properly funded and that you provided us with the necessary resources to move ahead with our work, even as other programs were facing sequestration. The importance of this auction to the public safety community and the boost it will provide for nationwide interoperable communications will benefit all Americans. We also see this auction as a significant financial opportunity for many broadcasters – it will enhance the ability of broadcasters retaining their spectrum to continue providing the public with diverse, local, free over-the-air television service.

At the same time, the reclaimed spectrum will promote economic growth and enhance America's global competitiveness. More spectrum means more speed, capacity and ubiquity of mobile broadband services such as 4G LTE and Wi-Fi networks. These benefits will be magnified by another auction scheduled for the next year, AWS-3, which will provide access to reclaimed federal spectrum.

I appreciate this subcommittee's attention to the Commission's funding needs during the next fiscal year, and I look forward to working with you to fulfill our statutory mission efficiently and effectively. Thank you.